MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BFN2244 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

8 March 2019
3.00 p.m. – 5.00 p.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 10 pages with **FOUR (4)** Questions only. (Including Front Page and Consolidated Financial Statements)

2. Answer **ALL** questions.

3. Write your answers in the Answer Booklet provided.

QUESTION 1 & 2

Press Metal Aluminium Holdings Berhad ("Press Metal") is a Malaysian-based aluminium company with an extensive global presence. From our modest beginning as a privately-owned local aluminium extrusion company in 1986, Press Metal have grown into a globally integrated aluminium corporation. With a smelting capacity of 760,000 tonnes and an extrusion capacity of 210,000 tonnes per annum, the company is the largest integrated aluminium producer in South East Asia.

CHAIRMAN'S REVIEW AND MANAGEMENT ANALYSIS

The year 2016 was quite a memorable year for Press Metal Group. The Group celebrated its 30th anniversary in May 2016, a very significant milestone in its history. Starting then as Press Metal Aluminium Industries Sdn Bhd as a small extrusion company in Selangor, it changed to its current name with its listing on the Second Board of the then Kuala Lumpur Stock Exchange. Thereafter, it took an ambitious step venturing into China quadrupling its extrusion capacity and then building its own aluminium smelters in Sarawak -- Press Metal has indeed come a long way to becoming a globally integrated aluminium corporation today. With the completion of the Samalaju Phase 2 smelter in Sarawak, Press Metal owned not only the largest smelting capacity in South East Asia, but also one of the largest smelters in a single location in the world.

Aluminium is a remarkable material due to its light weight and corrosion resistivity. Aluminium is widely used in packaging, consumer durables, aerospace industry and building construction such as building formworks and facade. Today, aluminium is being used to construct vehicle replacing steel, to reduce the vehicle weight and improve the fuel consumption. Further, there is increasing trend where aluminium is used to replace copper in the electric cables industry.

For financial year 2016, the Group achieved a record-high Revenue of RM6.65 billion. This was mainly contributed by increased production output, improvement of aluminium prices as well as the strengthening of the US Dollar against the Ringgit Malaysia. It is an impressive 53.88% jump from that of RM4.32 billion in 2015. Correspondingly, Profit Before Tax (PBT) of the Group increased by 190.91%, from RM231.9 million in a financial year 2015 to RM674.8 million.

As we continue to strengthen our position in the aluminium industry, our shareholders are being rewarded for their continuous support through generous dividend payouts, share split, bonus issue and share price appreciation. For financial year 2016, the Group declared and paid a total dividend of RM170.9 million or 8.5 sen per ordinary share on average.

Corporate Objectives and Strategies

Press Metal's core-objective is to provide quality products for the global customers for a

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reasonable return for all of its stakeholders. Press Metal employs a simple strategy that is to diversify its product mix, producing value-added products for higher return and continually exploring new market segments both domestically and internationally.

High Quality Products

Our primary aluminium ingot is that of Good Western standard which is registered with the London Metal Exchange (LME). We ensure each ingot produced by us does meet the stringent criteria set by LME and guarantee to meet the customers satisfaction.

Value-added Products

Apart from the basic ingot, Press Metal has been focusing on producing more value-added products to generate higher return such as billets, alloy ingots and aluminium rods.

Outlook of Future Prospects

For 2017, International Monetary Fund projected global growth of about 3.7% as compared to 3.4% projected in 2016. The outlook for advanced economies has improved for 2017 as a result of stronger activity in the second half of 2016 with the fiscal stimulus in the United States. Growth prospects for emerging and developing markets are projected to be slightly softened due to the tightening of financial conditions especially in India, Brazil and Mexico. However, in view of the overall improved sentiment, commodities prices are expected to increase over the year in 2017.

With the strong infrastructure demand and real estate investment in China and the expectation of fiscal easing in the United States, prices for base metal including aluminium are expected to be strengthened. Since the beginning of the year, aluminium price has increased from about USD1,700 to USD1,950 per tonne. The market anticipates that the price may trade at the current level as supply and demand are in a very tight balance.

In addition, the Chinese government has been very concerned of the environment pollution lately and has ordered industries such as aluminium to reduce its production. Press Metal believes the global aluminium industry is in a more balance situation than in the past couple of years. Demand is expected to grow at a healthy pace but supply growth will face more challenges. As such, the Board and management is cautiously optimistic that for this fiscal year, the Group should perform better with the benefit of full production from our three smelter lines of 760,000 tonnes capacity and higher value-added products output.

Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position are attached on the pages 7 - 10.

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QUESTION 1

a) Based on the attached **Group Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position,** compute and briefly evaluate the changes in revenue, gross profit, profit, total comprehensive income and basic earnings per ordinary share for the financial period 2015 and 2016. **(13 marks)**

b) Based on the attached **Group Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position,** calculate the return on equity and its component ratios (Net profit margin, total asset turnover and financial leverage) for the financial periods 2015 and 2016. **(12 marks)**

(Total: 25 marks)

QUESTION 2

a) Based on the attached **Group Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position,** calculate the conversion periods (account inventory periods and account receivable periods) for the financial periods 2015 and 2016. **(12 marks)**

b) Based on **Chairman's Review and Management analysis,** you are required to support your answer in question 1(a), 1(b) and 2(a) to determine its significance to stock valuation. **(13 marks)**

(Total: 25 marks)

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QUESTION 3

a) You are given the following information for IGB Company. As of year 1, the company's book value is RM50,000 and its cost of capital is 15%.

	Year 1 RM	Year 2 RM	Year 3 RM	Year 4 RM	Year 5 RM
Sales	122,000	114000	105,000	96,000	82,855
Operating expenses	100,000	90,000	80,000	70,000	57,145
Depreciation	10,000	11,300	12,770	14,430	14,430
Net income	12,000	12,700	12,230	11,570	11,280
Dividends	6,000	6000	5,600	5,700	5,100
Expected book value	50,000	56,000	62,700	69,330	75,200
ROCE	0.2400	0.2268	0.1951	0.1669	0.1500

Dividends for year 6 and beyond are expected to remain at year 5 level.

i) Compute Company's abnormal earnings for year 1 to year 5 **(10 marks)**

ii) Use an accounting based valuation model to estimate the value of company's equity for year 1 to year 5. **(5 marks)**

b) Contrast direct method (Statement of Cash Flow) with indirect method (Statement of Cash Flow). **(5 marks)**

c) Discuss TWO (2) types of accounting change **(5 marks)**

(Total: 25 marks)

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QUESTION 4

a) You are analysing the potential purchase of 100% Sohu Corp by your company, Sina Corp. The information below is provided. Your company, Sina Corp pays in cash RM200,000 for Sohu Corp and the cash is obtained via issuing new share.

	Sina	Sohu	
	Historical Value	Historical Value	Fair Value
	RM'000	RM'000	RM'000
Current Assets	80	60	65
Land	100	40	60
Plants, net	80	30	30
Equipment, net	70	20	30
Cash	60	10	10
Total assets	**390**	**160**	**195**
Current liabilities	240	60	60
Shareholders' equity	150	100	
Total Liabilities and equity	**390**	**160**	

Required:
Prepare a consolidated balance sheet AND inter-company transaction. **(20 marks)**

b) What are the major accounting distortions for debt securities investment? **(5 marks)**

(Total: 25 marks)

End of Page

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	Note	Group		Company	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
Revenue	18	6,649,451	4,321,271	995,205	841,132
Cost of sales		(5,590,417)	(3,584,043)	(765,145)	(759,270)
Gross profit		1,059,034	737,228	230,060	81,862
Other income		201,686	196,492	59,329	52,102
Distribution expenses		(132,092)	(96,216)	(13,354)	(11,195)
!DMINISTRATIVE EXPENSES		(158,158)	(137,202)	(31,919)	(19,058)
Other expenses		(142,297)	(374,668)	(64,399)	(47,642)
Results from operating activities		828,173	325,634	179,717	56,069
&INANCE INCOME	19	3,987	1,928	-	3,189
&INANCE COSTS	20	(160,298)	(97,726)	(18,105)	(23,796)
Net finance costs		(156,311)	(95,798)	(18,105)	(20,607)
Share of profit of an equity-accounted associate, net of tax		2,970	2,140	-	-
Profit before tax	21	674,832	231,976	161,612	35,462
Tax expense	22	(69,062)	(71,007)	(9,815)	(4,539)
Profit for the year		605,770	160,969	151,797	30,923
Other comprehensive expense, net of tax					
Items that are or may be reclassified subsequently to profit or loss					
Cash flow hedge		(102,842)	(187,239)	-	-
&OREIGN CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN operations:		(20,336)	28,319	-	-
- (Losses)/Gains arising during the year		(20,826)	26,391	-	-
- Share of gain of an equity-accounted associate		490	1,928	-	-
Other comprehensive expense for the year, net of tax		(123,178)	(158,920)	-	-
Total comprehensive income for the year		482,592	2,049	151,797	30,923

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Statements of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016
Cont'd

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Profit attributable to:					
Owners of the Company		**483,572**	132,345	**151,797**	30,923
Non-controlling interests		**122,198**	28,624	**-**	-
Profit for the year		**605,770**	160,969	**151,797**	30,923
Total comprehensive income attributable to:					
Owners of the Company		**380,434**	10,447	**151,797**	30,923
Non-controlling interests		**102,158**	(8,398)	**-**	-
Total comprehensive income for the year		**482,592**	2,049	**151,797**	30,923

	Note	2016	2015 Restated
Basic earnings per ordinary share (sen)	23	**13.22**	3.71
Diluted earnings per ordinary share (sen)	23	**12.43**	3.48

The notes on pages 100 to 205 are an integral part of these financial statements.

Statements of Financial Position

as at 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets					
Property, plant and equipment	3	**5,186,244**	5,194,390	**114,578**	126,259
Investment properties	4	**9,797**	6,335	**3,375**	-
Goodwill	5	**10,497**	10,497	**-**	-
Investments in subsidiaries	6	**-**	-	**1,254,124**	1,237,083
Investment in an associate	7	**44,023**	41,637	**11,812**	11,812
Other investments	8	**1,803**	1,803	**750**	750
Deferred tax assets	9	**67,933**	99,434	**-**	-
Total non-current assets		**5,320,297**	5,354,096	**1,384,639**	1,375,904
Inventories	10	**1,011,299**	869,889	**51,461**	47,381
Other investments	8	**26,000**	-	**-**	-
Trade and other receivables	11	**885,283**	731,320	**886,316**	699,647
Prepayments	12	**27,611**	77,441	**1,004**	1,127
Current tax assets		**749**	7,783	**167**	7,158
Derivative financial assets	13	**52,918**	28,408	**-**	-
Cash and cash equivalents	14	**377,679**	305,120	**11,159**	21,300
Total current assets		**2,381,539**	2,019,961	**950,107**	776,613
Total assets		**7,701,836**	7,374,057	**2,334,746**	2,152,517
Equity					
Share capital		**924,473**	649,416	**924,473**	649,416
Share premium		**1,889**	83,816	**1,889**	83,816
Reserves		**(175,164)**	(66,734)	**29,503**	34,795
Retained earnings		**1,455,096**	1,272,659	**72,680**	219,423
Equity attributable to owners of the Company	15	**2,206,294**	1,939,157	**1,028,545**	987,450
Non-controlling interests		**510,048**	428,560	**-**	-
Total equity		**2,716,342**	2,367,717	**1,028,545**	987,450

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as at 31 December 2016
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	Note	Group		Company	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
Liabilities					
Loans and borrowings	16	**1,780,161**	1,989,882	**4,599**	5,021
Deferred tax liabilities	9	**144,501**	129,277	**17,023**	17,023
Total non-current liabilities		**1,924,662**	2,119,159	**21,622**	22,044
Trade and other payables	17	**1,325,688**	1,455,420	**1,263,484**	1,065,422
Loans and borrowings	16	**1,602,139**	1,424,869	**21,095**	77,601
Current tax liabilities		**4,693**	2,480	-	-
Derivative financial liabilities	13	**128,312**	4,412	-	-
Total current liabilities		**3,060,832**	2,887,181	**1,284,579**	1,143,023
Total liabilities		**4,985,494**	5,006,340	**1,306,201**	1,165,067
Total equity and liabilities		**7,701,836**	7,374,057	**2,334,746**	2,152,517

The notes on pages 100 to 205 are an integral part of these financial statements.